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SUBJECT: BANKING CONFERENCE HIGHLIGHTS DIVISIONS OVER
CRISIS RESPONSE

SUMMARY

11. (U) Officials from Russia's Central Bank and Sberbank presented opposing views of the duration of the economic crisis and the possibility of a second banking crisis at this week's Moscow Higher School of Economics annual conference. Aleksei Ulyukaev of the Russian Central Bank argued the most difficult part of the crisis was over, and that Russia was learning to operate in its new economic environment. German Gref of Sberbank contended Russia's banking crisis was only beginning and pressed for swift GOR action to address bad assets. Presidential Aide Aleksei Dvorkovich agreed that another wave of the crisis would pose serious problems for the banking sector. He predicted the economy would not begin to stabilize until the third or fourth quarter of 2009. Dvorkovich also accepted the inefficiency of some state corporations, but asserted attempts to change strategies now would be unproductive. End summary.

BANKERS DISAGREE ON CRISIS LENGTH AND RESPONSE

12. (U) Aleksei Ulyukaev, First Deputy Head of the Russian Central Bank, declared the most difficult part of the economic crisis in Russia was over during a presentation at the Higher School of Economics, annual conference on social and economic development on April 8. While not indicating Russia had already "hit bottom," Ulyukaev contended the country was learning how to operate in its new economic environment, since a "bounce back" to pre-crisis conditions would not occur. Ulyukaev distinguished the liquidity crisis at the end of 2008 from the current problem of bad assets in the banking sector. The asset problem will not spread like the liquidity "lightning fire" of the fall. Although the liquidity crisis required quick action, he stated the process of addressing bad assets in the banking system should be thoughtful and gradual. In addition, Ulyukaev was confident the ruble had stabilized and stressed the possibility of keeping inflation under 13 percent in 2009.

13. (U) In contrast to Ulyukaev, German Gref, Chairman of Sberbank, argued Russia's banking crisis was only beginning. He stated the crisis would come from the real sector. Gref also claimed Russian banks did not fully experience the crisis last fall because they were not involved in derivative operations. Gref asserted non-performing loans, whose rate of accumulation was currently 20 percent per month,

constituted the greatest threat to banks. He commented, "Slow government action allows banks to hide bad debts and leads to the accumulation of bad assets." Gref appealed to the GOR to adopt a strategy for dealing with the problem swiftly. In addition, he referenced Sberbank's analysis of past crises to demonstrate the point that economy recovery would only be possible after bad assets were cleaned from the banking sector. Sberbank's analysis also concluded the average time for economic recovery was twice the duration of the recession.

DVORKOVICH PUSHES BANK AID AND LONG-TERM DEVELOPMENT

14. (U) Presidential Aide Arkady Dvorkovich also underscored the importance to the GOR of swift anti-crisis measures, particularly in the banking sector. Dvorkovich was pessimistic regarding the possibility of a rapid recovery from the crisis. He stated "all the waves of the crisis had not yet passed." In addition, Dvorkovich argued that stabilization would not begin to set in until the third or fourth quarter of 2009, although the fall in the second quarter would not be as sharp as in the first quarter. He noted another wave of the crisis would pose serious concerns for Russia's banking sector. Support for the banking system was therefore an absolute priority for the GOR. However, Dvorkovich contended the GOR should not directly intervene in banks' normal operations and decisions regarding loan recipients. Instead, the GOR needed to create the conditions in which banks could use their resources appropriately, not simply placing them in foreign currencies abroad.

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15. (U) In addition to immediate anti-crisis measures, Dvorkovich emphasized the importance of the GOR's long-term development strategy and the need to improve Russia's productive capacity. He stated the priorities specified in the 2020 Long-Term Development Strategy, in particular quadrupling labor productivity and doubling energy efficiency, were absolute necessities without which the dominant part of the Russian economy would not survive. Dvorkovich also noted the inefficiency of some state corporations, noting the possibility that the GOR is "overly fascinated" with creating such enterprises in various sectors. He said it was necessary "to create new, effective production." However, he added that changing the GOR's strategy in this area now would be "incorrect and counterproductive."

COMMENT

16. (SBU) Government officials and private lenders believe the level of non-performing loans may hit 10 percent by the year's end. However, Gref's estimates of 20 percent may in fact be closer to the mark given that many Russian banks have traditionally understated their troubled assets. The real level of bad loans is often concealed by debt restructuring. Banks are now reportedly increasing their provisions against the anticipated growth in non-performing loans later this year, and many are hoping - as Gref suggested - that the government will adopt preventative measures by recapitalizing them. End Comment.

BEYRLE